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Chief, Intelligence Information Staff 27 May 1957

THRU : Chief, Industrial Division, ORR by BD
Chief, Medium Machinery Branch, D/I

Priority targets in Hungary for Interagency Clandestine Collection Priorities Committee of the IAC

In response to St/I Office Notice No. 112, dated 9 April 1957, a consolidated list of priority targets of interest to both I/MM and I/TH is attached as Annex A to this letter of transmittal.

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ANNEX A

Priority Hungarian Targets of Interest to I/TH and I/MM for Interagency Clandestine Collection Priorities Committee of the IAC

1. Intelligence Objective

All targets listed in this memorandum are justified under Objective II,d of DCID 4/6, dated 30 October 1956, which includes "the motivation, character, and magnitude of current economic development programs, their implementation and their effect upon the economic, political, and military strength of the Soviet."

2. Background

Hungary's machine building industry plays a minor role within the Soviet Bloc. Although machine building is now the major branch of industry and chief supplier of exports, it is not capable of meeting all domestic requirements. Exports of manufactured commodities are limited largely to railroad equipment, with increasing stress placed on trucks and buses.

World War II inflicted serious damage on the Hungarian economy. The fleeing Germans had dismantled industry, and Hungary was required to pay commodity reparations to the USSR, Czechoslovakia, and Yugoslavia. The commodities demanded by the Soviets were those needed for reconstruction of the Hungarian economy, and their loss impeded industrial recovery.

The Three-Year Plan (1947-49) was primarily concerned with the reconstruction of the war-damaged industry. Particular stress was to be given to heavy industry, especially machine production from the engineering industries. Mechanization of agriculture was secondary. The plan was completed 29 months ahead of schedule. A reported 24% increase over 1938 indicates the extent to which the plan was overfulfilled.

The First Five-Year Plan (1950-54) called for rapid industrialization. Emphasis was to be placed on heavy industry, chiefly machine building. The economic structure of the country was to altered so that Hungary would become an industrial-agrarian rather than primarily an agrarian country. Initially the plan was successful, but the drive to attain new goals was doomed by shortages of essential raw materials and low productivity. By late 1952, it was evident that production quotas and export commitments could not be met. Even more evident was the inability to meet investment goals. As a result of the failures, the Hungarian government embarked on a "New Course" in 1953. The policy was similar to those advocated in the USSR and other European Satellites. Domestic production of raw materials was to be increased and light industrial and agricultural output was to be expanded at the expense of heavy industry. The plan was a failure. Production goals were not met in the new fields of emphasis, and heavy industry failed to meet its new plan for 1954.

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Late in 1955 a plan for 1956 was projected as a stepping stone to the Second Five-Year Plan with emphasis placed on expanding heavy industry and the domestic supply of raw materials. Because a large portion of exported manufactured goods are processed from imported raw materials, a shift in manufacturing has been advocated so that emphasis would fall on the production of items requiring a high degree of fabrication. Production increases are to be attained by better utilization of available equipment and labor as well as by improvement in technology.

The Hungarian economy suffered great damage as a result of the recent October Revolution. It is estimated that Hungary suffered 20 billion forints in damage. A solution has been promoted by the fact that in 1957 the Soviet Union and the Satellite countries have made available 874 million rubles credit for the purchase of goods, and 264 million rubles in freely convertable currency.

The achievements in the first quarter of 1957 have made a favorable contribution to the restoration of the economy. Full equilibrium, however, has not yet been restored. The shaping of industrial production will be primarily determined by the amount of electric power that can be expected and by the raw material basis. According to the provisions of the plan, Hungary will produce 5.3 billion kilowatt-hours of electric power, 790,000 tons of cement, and 270,000 tons of rolled steel in 1957. Real wages in 1957 will be 15 percent higher than in 1956.

3. Industrial Targets

a. Basic guidance

I/TH and I/MM have a general interest in the machinery and equipment building industries from the following points of view:

(1) Output statistics, both planned and actual, in physical units and value terms;

(2) Bloc and non-Bloc imports and exports of machinery products, including especially trade with underdeveloped areas;

(3) Planned and actual investment;

(4) Size of labor force, including wages and a breakdown by skills;

(5) Production costs and wholesale prices;

(6) Inputs of labor and materials;

(7) Sources of raw and semi-fabricated materials.

Among the machinery and equipment industries, I/MM has a special responsibility for machine tools and metalworking equipment, agricultural machinery, chemical

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equipment, textile machinery, and optical and precision apparatus, and I/TH for trucks, tractors, passenger cars and buses, locomotives and rolling stock, diesel engines and antifriction bearings, and mining machinery.

Information on individual plants has a lower priority than overall statistics except for information of current intelligence value such as strikes or worker discontent which might lead to uprisings similar to the recent October revolution or for data on new plants and plant expansion.

b. List of targets

Information of the type described above will normally be found in reports available in the agencies listed below. Their locations have not all been identified although most of them probably have offices in Budapest.

(1) Central Statistical Office, Budapest (publishes statistical yearbooks and periodicals).

(2) State Economic Planning Bureau, Budapest.

(3) Ministry of Trade, Budapest.

(4) Ministry of Metallurgy and Engineering, Budapest (there are probably bureaus subordinate to the Ministry in which information concerning the commodities of special interest to I/TH and I/MM may be located.

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